

**THE OFFICE OF REGULATORY STAFF**

**SURREBUTTAL TESTIMONY**

**OF**

**MATTHEW P. SCHELLINGER II**

**April 16, 2018**



**DOCKET NO. 2017-28-S**

**Application of Synergy Utilities, L.P. for Approval of  
Sewer Rates, Terms and Conditions**

**SURREBUTTAL TESTIMONY OF**

**MATTHEW P. SCHELLINGER II**

**ON BEHALF OF**

**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2017-28-S**

**IN RE: APPLICATION OF SYNERGY UTILITIES, L.P. FOR APPROVAL  
OF SEWER RATES, TERMS AND CONDITIONS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Matthew P. Schellinger II. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff (“ORS”) in the Utility Rates and Services Division as a Regulatory Analyst.

**Q. DID YOU FILE DIRECT TESTIMONY AND EXHIBITS RELATED TO THIS PROCEEDING?**

**A.** Yes. I filed direct testimony and nine (9) exhibits with the Public Service Commission of South Carolina (“Commission”) on April 2, 2018.

**Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

**A.** The purpose of my surrebuttal testimony is to respond to the rebuttal testimony filed by Synergy Utilities L.P. (“Synergy” or “Company”) witness Keith Parnell on April 9, 2018. Specifically, I will focus on the following areas:

- Rate for sludge disposal services;

- Merger-related expenses; and,
- ORS's adjustment to Synergy's revenue requirement attributable to the Tax Cuts and Jobs Act.

**Q. PLEASE CLARIFY ORS'S POSITION ON THE ESTABLISHMENT OF A RATE FOR SLUDGE DISPOSAL SERVICES.**

**A.** Synergy indicated through rebuttal testimony the Company provides sludge hauling and sludge disposal services for third-parties using assets owned by the Company. The Company provides the wastewater treatment services for these customers at the Bush River Waste Water Treatment Plant. This wastewater from the third-parties is co-mingled and treated like all other wastewater. Synergy indicates through rebuttal testimony it is being paid for these treatment services. The Commission has not approved the rates Synergy has charged third-parties for sludge disposal service and Synergy proposes to continue to charge its customers an unapproved, market rate for this service on a going forward basis.

S.C. Code Ann. Regs 103-503(B) states:

All rates, contract forms, and rules and regulations, proposed to be put into effect by any utility as defined in 103-502(11) shall be first approved by this commission before they shall become effective, unless they are exempt from such approval by statute or other provision of law.

To correct this compliance deficiency, ORS recommends the Company be required to choose one (1) of the following options:

- 1) Establish a rate for sludge disposal and have it approved by the Commission; or

- 1                   2) Execute contracts with the third-party that specify the rate for sludge  
2                   disposal service and file the contracts with the Commission for approval per  
3                   S.C. Code Ann. Regs. 103-503; or  
4                   3) Charge the third-party for sludge disposal services in accordance with the  
5                   approved tariff for commercial customers.

6   **Q.   PLEASE EXPLAIN ORS'S RECOMMENDATIONS REGARDING THE**  
7   **RECOVERY OF SYNERGY'S MERGER RELATED EXPENSES.**

8   **A.**           ORS recommends the Synergy shareholders be responsible for the expenses related  
9           to the merger of Development Services, Inc. ("DSI") and Midlands Utility, Inc.  
10          ("Midlands"). The consolidation of the utilities into one (1) operating entity has yielded  
11          no monetary benefits to the ratepayer.

12               Synergy indicates in rebuttal testimony the companies have enjoyed economies of  
13               scale (rebuttal Parnell, p.4 line 23). ORS could verify the Company consolidated its filings  
14               into one (1) performance bond and one (1) rate case; however, neither filing reduced the  
15               costs incurred by the Company. For example, ORS reviewed the cost savings related to  
16               rate case expenses and found the total rate case expense post-consolidation exceeds the  
17               total rate case expenses incurred by the utilities pre-consolidation. Specifically, total rate  
18               case expenses incurred by DSI in Docket No. 2014-406-S was \$34,612 updated through  
19               the hearing and total rate case expenses incurred by Midlands in Docket No. 2004-297-S  
20               was \$39,590. These values are considerably less than the rate case expenses of \$112,068  
21               for this docket as indicated by Synergy in its rebuttal testimony or the updated rate case

1 expenses of \$106,685 verified and allowed in the surrebuttal testimony of ORS witness  
2 Seale.

3 In reviewing the Company's application and response to data requests, ORS  
4 discovered the Company included two (2) balance sheets and two (2) full, unconsolidated  
5 general ledgers, which indicates that the Company continues to maintain its financial  
6 records as if it were not consolidated. Due to the lack of consolidation in the records of the  
7 Company, ORS performed two (2) examinations to complete this rate case, which resulted  
8 in difficulties in establishing a consolidated capital structure and identification of specific  
9 property taxes for Synergy property.

10 **Q. PLEASE EXPLAIN ORS'S POSITION ON LEGAL EXPENSES INCURRED BY**  
11 **SYNERGY'S REAL ESTATE ATTORNEY.**

12 **A.** ORS affirms its recommendation to require the shareholders of Synergy to be  
13 responsible for approximately \$10,000 in legal expenses incurred for a real estate attorney.  
14 The specific work performed by this real estate attorney was related to the transfer of non-  
15 utility property from DSI and Midlands to the consolidated entity, Synergy. The non-utility  
16 property transaction related to an auto parts store, a restaurant, a video store, and other non-  
17 utility property. None of these properties are used by Synergy to provide service to its  
18 customers. Therefore, the costs related to the real estate transactions should not be borne  
19 by the Synergy ratepayers.

20 **Q. PLEASE CLARIFY ORS'S RECOMMENDATION TO ESTABLISH A**  
21 **REGULATORY LIABILITY AND ADJUST THE REVENUE REQUIREMENT**  
22 **FOR SYNERGY.**

1     **A.**             The change in the federal tax rate change was extraordinary and beyond the control  
2             of Synergy. Additionally, the federal tax rate reduction caused a material known and  
3             measurable change in the Company's income tax expenses. The Company has collected  
4             for federal taxes that it will never pay. ORS recommends the ratepayer receive the benefit  
5             of the change in income tax expense effective January 1, 2018. To provide the full benefit  
6             to the ratepayer, ORS calculated an estimate of the revenue amount billed to Synergy  
7             customers which can be attributed to the change in federal income tax rate from the  
8             previously approved federal tax rates to 21%. ORS recommends \$33,975 be placed into a  
9             regulatory liability and amortized over three (3) years as discussed in my direct testimony.

10            ORS recommends a reduction to the Company's revenue requirement in a purely  
11            prospective manner. ORS's recommendation will return the benefits to the ratepayer and  
12            prevent Synergy from receiving a windfall solely due to the Tax Cuts and Jobs Act.

13     **Q.     DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

14     **A.**             Yes, it does.